

## Agricultural Services

# Beef Industry Outlook October 2015

Rising sales over the summer, an increase in cattle trade and the continuing fine balance between imports and exports might be seen as the main characteristics in what is a stable, if not entirely positive, market.

The volatile situation with the milk market could lead to an increased number of cows being culled and, going forward there will be less dairy cross beef calves being born - thus reducing the supply of beef. This will not have an immediate effect as the calves take a minimum of 218 months to get to the stage of slaughter. More dairy cow being slaughtered may have a negative impact on the cow beef sector - continuing the trend over the past few years of a steady decline in the UK's breeding herds.

The strongest concern here is in the suckler beef sector, which is now at its lowest level since the late 1980s, having dropped by 200 thousand head in the past decade. Payments made under the Common Agricultural Policy (CAP) might fall for many suckler beef producers, while the costs for meeting the threshold for support might increase. Lack of profitability in the sector might show itself to be an issue in 2016.

With this in mind, remaining profitable without having to factor in support payments can be a serious challenge for beef farmers. Many businesses currently rely on the payments; positive net margins are not being widely posted in the beef sector and so, for the long-term commercial future, this is an ongoing concern.

Despite the UK economy continuing to show small signs of growth, food prices continue to fall. Year-on-year food prices are declining, with an annual rate of inflation of -2.7% in the year to July 2015. The UK's GDP in volume terms was estimated to have risen by 0.4% between Q4 2014 and Q1 2015, but the fall in food prices has largely been caused by declining oil prices, falling global commodity prices and fierce price cutting in supermarkets. Food and non-alcoholic drink prices fell 0.7% between June and July this year, compared with a 0.2% drop in the same months in 2014.

Looking forward into 2016, the retail end may dictate whether prices recover, as the supply outlook for the second half of 2015 is fairly clear. However, the resurgence of the UK economy gives confidence that there may be an improvement in beef sales in the remainder of 2015 and into next year, as disposable income improvements should lead to a rise in consumer confidence and spending.

The beef export trade has performed better this year, although the market is still difficult. An expected tightening in supplies is keeping the balance of trade very closely aligned. Currently, exchange rates are having an impact; with the Euro relatively weak. Ireland has emerged as an even stronger competitor than it has been in the past. Imports are expected to rise slightly further in 2016, partly as a result of increased Irish production.

The Netherlands and Ireland continue to be the main buyers of UK beef exports. Trends from 2014 indicate substantial growth in sales to smaller markets including Denmark, Germany, Greece, Italy and Spain. There was also a fivefold increase to Hong Kong. The trend in carcass shipments is moving towards higher-priced cuts, which should benefit producers' profitability; higher-priced cuts are now forming almost three quarters of total shipments, up from about 60% a few years ago.

The wider meat and meat preparations market shows a rise in imports of 1.3%, equating to £75m in additional imports. Exports, however, dropped by 6.6%, a total fall of £111m.

The Russian import ban on EU agricultural products was extended for a further year from 7 August. This will continue to have a serious impact on beef export as Russia previously accounted for approximately a quarter of EU beef. A possible positive outcome of the ban, however, is the opportunity for increased links between the other countries that are also suffering its effects, such as the US and the rest of Europe. There could be the development of new markets from countries not under the ban selling more of their beef to Russia, for example.

There has been a slight rise in production during 2015. The trend for slaughtering of UK prime cattle (steers, heifers and young bulls) is currently showing a dip, but is likely to go up again in 2016. In 2014, total slaughtering were 1,961 thousand head; this is predicted to fall to 1,903 thousand head for the whole of 2015, rising back up to 1,975 thousand head in 2016.

Figures for adult cattle slaughtering are 597 thousand head in 2014, which are expected to rise to 605 thousand head by the end of 2015, then drop again to 590 thousand head in 2016.

There is a trend towards higher carcass weights, owing to better fodder quality and quantity, with carcass weights for heifers and steers up in 2015 by 9kg and 3kg respectively. This might ameliorate the slight reduction in outputs of prime cattle this year, and the increased weights are expected to continue in 2016. Production is expected to stay stable, with perhaps a modest increase in 2016. In terms of consumption, total figures for beef and veal are expected to reduce slightly to 1,134 thousand head from 1,146 thousand head last year; but this is expected to improve again in 2016 to 1,148 thousand head.

With the upward trend in the economy, the UK beef market remains robust and the prospect for 2016 is reasonable; but vulnerabilities of sterling and competition (especially from Ireland) are keeping both production and profits at levels that most farmers would like to see improve in the near future.

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